

Social Security and Medicare Solvency

The conference agreement on the Republican budget resolution does nothing to extend the solvency of either Social Security or Medicare. Throughout the debate on the conference agreement, Republicans strenuously argued that their budget protected Social Security because it just barely avoided spending any of the Social Security surplus, provided one accepted their unrealistic assumptions about future cuts in non-defense appropriations. Unfortunately, merely protecting the Social Security surplus does not extend Social Security's solvency by even one day. Of course, it does nothing for Medicare either.

By contrast, both the President's budget and the Democratic alternative budget not only protected Social Security but also used the benefits of significant debt reduction to extend the solvency of both Social Security and Medicare. For instance, the Democratic alternative budget extended the solvency of Social Security up to 15 years and of Medicare up to 10 years by dedicating the beneficial effects of the government's debt reduction to those purposes.

The Democratic alternative budget credited the Social Security trust fund with additional Treasury bonds, just like those that the trust fund already holds. New Treasury bonds would be added to the trust fund in amounts equal to the reduction in government interest expense from ten years of debt repayment. In 1999, interest on the publicly held debt was the third largest spending item in the federal budget, totaling \$230 billion.

In the Democratic budget, interest on publicly held debt dropped to \$76 billion by 2010. By 2013, the Democratic alternative repaid the entire publicly held debt, and therefore the cost of servicing the debt disappeared. The Social Security trust fund would receive additional assets exactly matching this reduced interest expense, but this would not occur until 10 years of debt reduction had actually occurred. This constituted a credible "lockbox" for Social Security in that any tampering with the path of debt reduction would automatically be reflected as a reduction in the amount of new assets going to the trust fund and a shortening of Social Security solvency.

The Democratic alternative budget had a slightly different mechanism for extending Medicare solvency. In this case, \$300 billion over ten years of the on-budget surplus was explicitly dedicated to debt reduction on top of the debt reduction already due to saving the Social Security surplus. For each dollar of additional debt reduction, the Medicare Part A trust fund was credited with an additional dollar of assets to reflect the shrinking of the public debt.

The fact that the conference agreement on the Republican budget resolution does not even offer a proposal addressing Social Security and Medicare solvency is troubling. The looming difficulties that these two programs face when the Baby Boom generation retires shortly after 2010 are the largest fiscal issues facing the country. Prudent and measured steps taken now can avoid the necessity for more drastic measures once the problems are upon us. The conference agreement's failure to address the premier budgetary issue of the day is a serious shortcoming.